

February 22, 2007

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TO: Each Supervisor

FROM: Bruce A. Chernof, M.D.
Director and Chief Medical Officer

SUBJECT: **PLAN FOR ADDRESSING CALIFORNIA HEALTHCARE
REFORM PROPOSALS**

This is to provide you with the status of our efforts to analyze the fiscal and programmatic impacts of State health care reform proposals and to develop plans to address the potential impact on the Los Angeles County Department of Health Services (DHS), as directed by the Board following its January 23, 2007 discussion of our initial report on this matter. Since then, the Department has:

- Conducted an analysis of the payor status of our current patient population and its projected change under the Governor's health care reform proposal (Attachments A and B). The biggest projected change is reducing the uninsured proportion of 71% (3% General Relief plus 57% uninsured 21 years and older plus 11% uninsured under 21) down to 15% by increasing full scope Medi-Cal from 17% to a projected 68%, establishing a new State Coverage Pool insuring 5%, and increasing Healthy Families enrollment. Additional detail on proposed sources of coverage for DHS' uninsured population is contained in Attachment C. DHS will complete a fiscal analysis of the Governor's health care reform proposal by March 23, 2007 which will include an estimate of patients likely to remain in the County system. The steps and timeline are included in Attachment D. Our analysis and planning to date has been based on the limited information available at this time. Our projections will change as more information is released and as the Governor's proposal evolves. Sufficient detail has not yet been released on the other health care reform proposals for DHS to analyze their impact.
- Received from California Department of Health Services (CDHS) staff a preliminary schedule (Attachment E) attempting to depict "County and Public Hospital Funding Under Governor's Health Care Proposal", analyzed it, and then prepared and submitted back to the State comments and questions (Attachment F) for their consideration. These comments and questions point out some major deficiencies in the State's schedule that need to be addressed before reasonable conclusions regarding the data can be drawn. The State has indicated that they will be responding to us soon.
- Met with Governor's office, CDHS and union representatives to discuss the Governor's proposal and its impact on our system. Our discussion about the critical support that the DHS hospitals provide to the fragile health care network in this county and the shortage of additional hospital capacity to absorb newly-covered patients who traditionally have gone to public hospitals was well received. I believe follow-up to this meeting promises to open up broader, and hopefully beneficial, discussions with the Governor's office about a prominent role in the Governor's plan for the public hospitals and clinics in our county.

Our guiding principles as we analyze the health care reform initiatives and develop our strategic response are:

- The County healthcare system must be stable and sustainable as it is an essential component of the health care delivery system in Los Angeles County.
- The County's healthcare funding cannot be reduced until it is demonstrated that the County workload is actually reduced and taken on by other health care providers.

Our ongoing analysis is taking into consideration the role of the public and private health care sectors in caring for a newly covered population, an enhanced role for DHS' Community Health Plan, potential changes in utilization of DHS facilities by the undocumented population, and the anticipated ongoing utilization of DHS facilities by those who remain uninsured, under-insured, or unable to access their coverage due to homelessness, mental illness, substance use, etc.

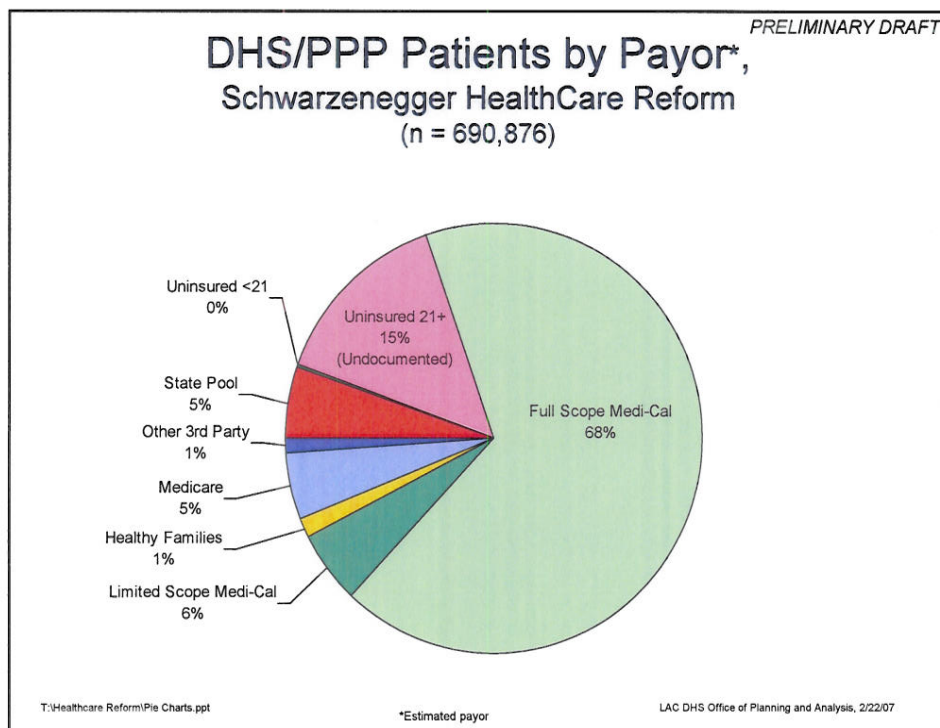
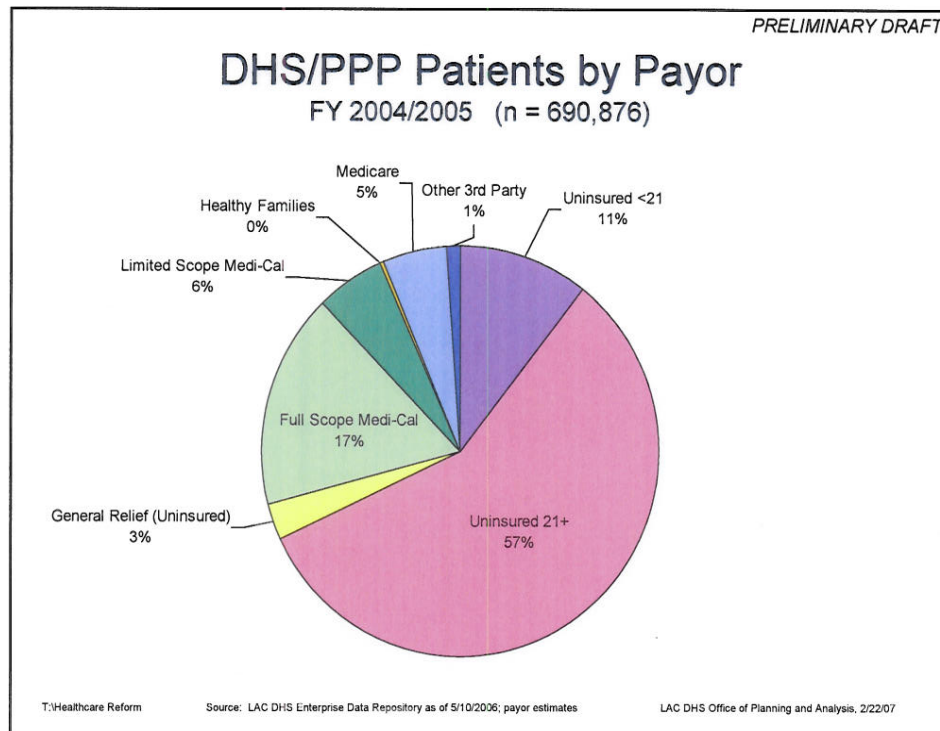
We will continue to work with the Chief Administrative Office and County's Legislative Strategist in further developing our strategy for engaging the Governor and both houses of the Legislature toward achieving a desirable role for our health system in whatever health care reform actually occurs within California. We will return to the Board with another update in thirty days, or sooner if conditions dictate.

Please let me know if you have any questions or desire further information.

BAC:GW
701:011

Attachments

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors
County Legislative Strategist



DHS/PPP Patient Payors: FY 04/05 vs. Governor's Proposed Healthcare Reform Plan

	Uninsured Age <21	Uninsured Age 21+	General Relief (Uninsured)	Full Scope Medi-Cal	Limited Scope Medi-Cal	Healthy Families	Medicare	Other 3rd Party	State Pool	Unknown
FY 04/05 Payor Mix	72,805	396,954	19,386	117,378	38,140	2,534	35,668	8,011	--	--
Proposed Changes	-72,805	-299,368	-19,386	346,728	--	7,268	--	--	35,674	1,889
Resulting Payor Mix	0	97,586	0	464,106	38,140	9,802	35,668	8,011	35,674	1,889

Notes:

- 1) Data Source: LAC DHS Enterprise Data Repository FY 2004/2005 data as of 5/10/06.
- 2) FY 04/05 Payors based on coding of primary insurance carrier at the patient's last visit during the fiscal year.
- 3) The number of patients on Limited Scope Medi-Cal is estimated based on the percent of Medi-Cal billings that were Limited Scope during FY 04/05.
- 4) The estimate of patients remaining uninsured under the Schwarzenegger plan is based on LAC DHS estimates of the percent of uninsured who are undocumented.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES

Governor's Health Coverage Plan
Proposed Sources of Coverage For the Uninsured
PRELIMINARY DRAFT

Currently Uninsured Population (1)	Total Uninsured (2) (3)	Proposed Source of Coverage			
		Medi-Cal	Healthy Families	State Purchasing Pool	Local Government
Children in Families (Regardless of Citizenship Status) (4) (5):					
Up to 100% of the FPL	65,307				
Between 100% and 300 % FPL	7,268		7,268		
Above 300% of the FPL	230				230
Total Children	72,805	65,307	7,268	0	230
Adults:					
Legal residents up to 100% of the FPL (6)	281,421	281,421			
Legal residents between 100% and 250% of the FPL	35,674			35,674	
Legal residents above 250% of the FPL	1,889				1,889
Undocumented adults (7) (8)	97,356				97,356
Total Adults	416,340	281,421	0	35,674	1,889
Total Uninsured	489,145	346,728	7,268	35,674	2,119

Footnotes:

- 1) Includes unduplicated DHS and PPP patients
- 2) Total DHS and PPP patients 690,876
- 3) Uninsured includes: Self-Pay/Uninsured, Public Health, Programs and Grants, Mental Health, Other County Departments, and Unknown. Self-Pay/Uninsured patient population splits at 63% DHS and 37% PPP
- 4) Data excludes undocumented patients that are **not** eligible for full scope Medi-Cal or Healthy Families
- 5) Statistics include 18 and 19 year old patients; Healthy Families eligibility up to age 18 only
- 6) Includes General Relief
- 7) May be eligible for Medi-Cal restricted benefits
- 8) Total DHS and PPP undocumented patients only

Data Source, Assumptions, Rules, etc.:

- 1) Data source: LAC DHS Enterprise Data Repository FY 2004/2005 data as of 5/10/2006
- 2) PPP patients are assumed to be under 133 1/3% FPL since this is the Certificate of Indigency (COI) eligibility requirement
- 3) Data is based on the expected primary payer source at last visit in FY 2004/2005
- 4) Data necessary to calculate poverty level (i.e., family size and gross income) is based on family declared income at time of visit
- 5) In order to estimate impact to our patients we separated data by payor groups, age groups [0 -17, 18 - 20, 21 - 64, 65 +], income and FPL conversion [<100% FPL, 101 to 250% FPL, 251 to 300% FPL, and over 300% FPL]

Steps Necessary to Estimate the Impact of the Governor's Health Care Reform Initiative on the Los Angeles County Department of Health Services
February 13, 2007

Task Group: Dyer, Gatton, Munoz, Todoroff, Wecker and Wells

<u>Step</u>	<u>Responsibility</u>	<u>Status</u>
1. Determine estimated number of current County and PPP patients and payer classification.	(Dyer/Gatton)	Completed
2. From available State Health Care Reform Information, determine likely payer classification of County and PPP patients under Initiative. State assumptions	(Dyer/Gatton)	Completed
3. For current County and PPP inpatient, ER and outpatient services, estimate number, by facility (except for PPPs), of current patient days and visits, by payer classification, likely to remain in County system and PPPs. State assumptions.	(Dyer/Gatton)	02/28/07
4. Estimate revenue loss and expenditure savings from current levels to expected patient utilization levels, by facility and in total. Base revenues on assumed revenue increases for enhanced Medi-Cal rates and insurance rates for newly insured. State assumptions.	(Gatton/Wecker)	03/14/07
5. Determine expected realignment revenue loss to County and expected cost of provider fees for County hospitals and physicians. State assumptions.	(Munoz/Wecker)	03/20/07
6. From steps 1-5 above, determine Estimated Financial impact on the County of Initiative.	(Munoz/Wecker)	03/22/07
7. Update DHS Fiscal Outlook, including estimated impact of Initiative.	(Munoz/Wecker)	03/23/07

COUNTY AND PUBLIC HOSPITAL FUNDING UNDER GOVERNOR'S HEALTH CARE PROPOSAL

(Dollars In Millions)

January 28, 2007

CURRENT FUNDING

County Funding:			
County Funds	\$2,000		\$2,000
Payments to Public Hospitals:			
Disproportionate Share Hospital		\$1,000	1,000
Safety Net Care Pool		540	540
Medi-Cal Inpatient Rates for Public Hospitals		0	0
TOTAL CURRENT FUNDING	2,000	1,540	3,540
			\$0

PROPOSED FUNDING

County Funding:			
Realignment and Other County Funds	1,000		1,000
Payments to Public Hospitals:			
Disproportionate Share Hospital		1,000	1,000
Safety Net Care Pool		224	224
Medi-Cal Inpatient Rates for Public Hospitals		599	599
TOTAL PROPOSED FUNDING	\$1,000	\$1,823	\$2,823
			-\$717

Estimate Assumptions:

1. Counties spend at least \$2 billion to cover otherwise uncompensated care and to provide care to medically indigent adults.
2. There is approximately \$1 billion in Medi-Cal Disproportionate Share Hospital (DSH) funds paid to public hospitals.
3. Public hospitals receive \$823 million in federal funds as a match to their Medi-Cal inpatient costs.
4. Public hospitals receive \$540 million in federal Safety Net Care Pool funds to cover costs associated with the uninsured.

Initial Los Angeles County Department of Health Services Comments and Questions on Governor's Health Care Reform: County and Public Hospital Funding Draft Sent February 3, 2007

-The first bullet on the second page of the narrative mentions a 60% Medi-Cal rate increase for County-operated outpatient service clinics by paying at 80% of the Medicare rate. This will likely result in reduced revenues to our clinics, which are currently reimbursed at cost for Medi-Cal services under State law. This arrangement was begun under the County's five-year extension of its 1115 Waiver and continues today. (We have been working with your staff over the past many months to gain CMS approval for the Medi-Cal State Plan Amendment, pursuant to the State law extension of this arrangement beyond the expiration of the County's waiver in June 2005. Such approval is expected by the County and, we believe, Stan.) Also, is the proposed rate increase just for hospitals, as the last sentence of this bullet seems to indicate, or does it extend to all county outpatient services, as the first line would suggest?

-In the second bullet on that page, would you please explain how the \$599 million and \$224 million amounts were determined?

-The third bullet is addressed below in the context of the funding schedule provided, dated January 28, 2007.

-Regarding the funding schedule provided:

-can you provide this information broken down by county?

-Under "Current Funding" why is the "Medi-Cal Inpatient Rates for Public Hospitals" line "0", when "Estimate Assumption" "3" at the bottom of the schedule states: "Public hospitals receive \$823 million in federal funds as a match to their Medi-Cal inpatient costs", and the column is entitled "State & Federal"?

-Under the "Proposed Funding" section:

Shouldn't the \$599 be doubled since it is described as "state funds which will be used to draw down federal funding" in the second page of the narrative and the column heading is "State & Federal"? Can we assume that this amount includes all Medi-Cal rate increases for county and publicly operated hospitals and freestanding clinics?

Also, to show the true fiscal impact on county-operated facilities, the expenditure savings impact on county costs due to the reduced workload need to be reflected, as well as the revenue impact of previously uninsured patients that continue to use county-operated facilities.

In addition, the cost to counties of the 4% hospital and, possibly, the 2% physician fees need to be reflected. Are we to assume the 2% physician fees apply to doctors employed by public hospitals, or...?